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Report Number: ICRR0023042

1. Operation Information

Operation ID	**Operation Name**	
P174152	Mozambique Covid19 Response DPO	
Country	**Practice Area (Lead)**	
Mozambique	Macroeconomics, Trade and Investment	

Non-Programmatic DPF

L/C/TF Number(s)	**Closing Date (Original)**	**Total Financing (USD)**
IDA-D7330	30-Jun-2021	101,539,035.00
Bank Approval Date	**Closing Date (Actual)**	
22-Oct-2020	30-Jun-2021	

	IBRD/IDA (USD)	**Co-financing (USD)**
Original Commitment	100,000,000.00	0.00
Revised Commitment	100,000,000.00	0.00
Actual	101,539,035.00	0.00

Prepared by	**Reviewed by**	**ICR Review Coordinator**	**Group**
Mees Daniel van der Werf	Jennifer L. Keller	Jennifer L. Keller	IEGEC

2. Program Objectives and Pillars/Policy Areas

a. Objectives

The objectives of the proposed operation were to (i) mitigate the impact on lives and livelihoods by supporting the immediate Covid-19 response, and (ii) support reforms that will aid the recovery and enhance fiscal sustainability.

The above is the PDO as it appears in the operation's Financing Agreement. This PDO can be unpacked into three underlying objectives: namely:

i. Mitigate the impact on lives and livelihoods by supporting the immediate Covid-19 response.
ii. Support reforms that will aid the recovery.
iii. Enhance fiscal sustainability.

b. Pillars/Policy Areas

The project supported:

Pillar 1: Mitigating the impact on lives and livelihoods by supporting the immediate COVID-19 response.

Pillar 2: Supporting reforms that will aid the recovery from the crisis and enhance fiscal sustainability.

c. Comments on Program Cost, Financing and Dates

The project was approved on October 22nd, 2020, for a US$ 100 million IDA grant. It became effective on December 14th, 2020 and was closed on the original closing date of June 30th, 2020. At that time US$ 101,539,035 had been disbursed. The discrepancy between the amount approved and the amount disbursed is due to changes in the exchange rate between the approval and disbursement dates

3. Relevance of Design

a. Relevance of Objectives

Relevance to country context

The objective of the first pillar was directly related to the COVID-19 pandemic response. During the project design phase, daily reported case numbers in Mozambique were still relatively low with the seven-day average having not yet significantly surpassed the 200 mark. However, the potential impact of COVID had already become apparent in other countries and a significant reduction in economic activity was anticipated as social distancing and travel restrictions (domestically and globally) would affect demand for goods and services. Growth was expected to decline to 1.3 percent in 2020, down from a pre-COVID forecast of 4.3 percent, with significant risks for a further slowdown. This was expected to cause a sizeable number of Mozambicans to fall back into poverty. The impact of social distancing measures and business closures was expected to be felt most strongly in urban and peri-urban areas, where it would impact sources of income from informal work and self-employment. Mozambique's urban poverty rate was estimated to increase from 29 to at least 31 percent in 2020, pushing an additional 250,000-300,000 urban people into poverty on account of employment and income losses, price increases, and a deterioration of public services.

The objective of the second pillar was related to Mozambique's economic and fiscal outlook for which the pandemic was not the only challenge. The COVID-19 outbreak reached Mozambique as the country attempted to recover from two major shocks: the hidden debt crisis and the devastating effects of cyclones Idai and Kenneth in 2019. In 2016, Mozambique's track record for high growth was disrupted when large, previously unreported, external borrowing came to light. The revelation of US$1.3 billion in undisclosed debt reduced confidence in the country, precipitated a temporary cessation of budget support from several major donors, increased debt levels, and more than halved the average rate of growth. In 2019 Mozambique had made notable progress in remedying the effects of these shocks, but past gains were threatened by the potential impact of the pandemic. The DPL supported the objectives of improving economic management, increasing accountability and transparency of government institutions, and strengthening the business environment for job creation which broadly aligned with issues identified in the Mozambique SCD.

Relevance to CPF and country development strategy

Pillar 1 focused on practical steps needed to mitigate the health and financial impacts of the pandemic. It aligned with the CPF objectives of improving health service delivery and extending coverage of social protection and labor programs.

Pillar II aligned with the CPF goal of improving economic management, increasing accountability and transparency of government institutions, and strengthening the business environment.

b. Relevance of Prior Actions

Rationale

Prior Actions
PDO1: Mitigate the impact on lives and livelihoods by supporting the immediate Covid-19 response.
PA 1: To strengthen the health sector response to COVID-19, the GoM has (i) approved the COVID-19 Operational Preparedness and Response Plan; and (ii) approved fast-track clearance procedures for COVID-19 related medical imports.
PA 2: To support the water sector response to COVID-19, the GoM has issued instructions to water utilities and service providers to (i) ensure all users remain connected despite payment status; (ii) to delay water bill payments for all consumers under the social tariff; and (iii) to exempt from water payment all users of public and private standpipes.
PA 3: To widen access to social protection during the COVID-19 pandemic, (i) the GoM has approved an increase in the number of social transfer beneficiaries from 700,000 to 1,690,000 households (ii) the Central Bank has authorized the opening of digital accounts using identification from the social security institute for social transfer beneficiaries; and (iii) the GoM has established a fuel price stabilization fund, which will widen fiscal space for the COVID-19 social response.
PA 4: To provide liquidity support to banks and firms, (i) the Central Bank has provided a US$500 million credit line facility to commercial banks; and (ii) the GoM has deferred income and corporate tax payments of small firms to 2021.
PDO 2: Support reforms that will aid the recovery
PA 7: To increase financial inclusion, the Central Bank has submitted to the Council of Ministers the simplified bank account law (“Lei que aprova o regime juridico das contas bancarias”) for opening bank accounts.

PA 8: To improve access to finance for small and medium enterprises (SME), the Council of Ministers has approved regulations for the use of moveable collateral guarantees and the creation of a centralized moveable collateral registry
PDO3: Support reforms that enhance fiscal sustainability
PA 5: The GoM has improved debt transparency and fiscal risk management through mandatory annual publication of (i) annual debt reports with coverage of state-owned enterprises (SOE) and LNG debt published; and (ii) the financial statements of the national hydrocarbons company (ENH); and (iii) the publication of a credit risk assessment framework for SOEs from 2019 onwards.
PA 6: To enhance debt sustainability, the Council of Ministers has approved decree that establishes a regulatory framework for public investment management, which requires planned projects (i) to be pre-appraised for social and economic impact before financing and (ii) requires consideration of disaster resilience for infrastructure projects.

PDO1: Mitigate the impact on lives and livelihoods by supporting the immediate Covid-19 response.

Prior Action 1: PA 1 was the only PA that directly supported the medical response to the pandemic. Mozambique's health sector needed to rapidly develop key response measures, mobilize external resources, and map them to key activities in a coordinated manner. To this end, the Ministry of Health (MISAU) had to develop a costed operational plan for both national and provincial levels. Mozambique's emergency response to COVID-19 also required the importation of medical products from an increasingly competitive market. The Health Response plan of MISAU estimated that US$153 million in medicines and medical supplies needed to be procured in the following six months. Tariffs and red tape were making the response costly and slowing down access to critical inputs. The simplified importation process was expected to cut the time to import by an average of 41 hours per shipment at borders and 18 hours per shipment at ports. This would help to make the overall Covid response quicker and more efficient. Albeit not grounded in country-specific analytical work, there was a clear and convincing results chain linking PA 1 to the achievement of PDO I. The PA is therefore rated **Satisfactory**.

Prior Action 2: PA 2 was designed to prevent households unable to pay their bills from losing water access which was important to hygiene during a pandemic. That said, in 2020, only 44 percent of the urban population in the bottom two income quintiles had access to a piped water connection or public standpipes leaving more than half of the poorest to not benefit. Finally, the moratorium on disconnections only lasted for the five months of the state of emergency while the pandemic and its disruptions continued for another two years. Disconnections resumed soon after the DPF was approved, and by early 2021 they had returned to pre-COVID levels. Overall, this PA's results chain was credibly linked to alleviating the impact of the pandemic. **Moderately satisfactory**.

Prior Action 3: By providing cash transfers targeted at the most vulnerable people and areas, PA 3 aimed to provide a buffer against extreme poverty. As many Mozambicans lack the identification required for opening mobile money or basic bank accounts, the central bank issued comfort letters to mobile money operators that enabled undocumented Mozambicans to open accounts. The fuel price stabilization fund collected resources from a fuel tax to support the government's commitment to smooth the passthrough of fuel price spikes of more than 20 percent of the previous month's price. This was designed to protect the budget from fiscal risks due to price spikes (thus contributing to PDO III.) The GoM committed to allocating inflows to this fund for social protection transfers in 2020. This PA helped finance the COVID-19 social response, therefore, contributing to PDO I, but the temporary reallocation of the stabilization fund undermined its intended fiscal objective in the short term. Overall, there is an explicit and convincing results chain linking, especially the first part of, the PA to the achievement of the PDO to which the PA is likely to make a major contribution, it is therefore rated **Satisfactory**.

Prior Action 4: By the end of April 2020, 1,175 firms had suspended their activities and over 12,000 workers had been laid off. PA 4 aimed to mitigate the pandemic's impact by ensuring that financial institutions were able to provide access to credit and working capital for businesses in a sustainable way (PA 4 i) and by supporting the survival of viable small firms (PA 4 ii). The first measure of the PA, the provision of a US$500 million credit line by the Central Bank (BdM) to commercial banks was intended to supplement liquidity in the financial system and in an effort to sustain the availability and reduce the cost of financing to firms. The ICR and Program Document provide no estimate of the possible impact of this measure on the economy, including whether or not financial institutions would lend the additional liquidity or use it to support buffers, although staff indicated analysis had been conducted by the Ministry of Finance. PA 4 ii's tax deferrals were targeted at the least resilient firms; very small firms with a turnover of less than US$36,000, which covered 75 percent of all formal firms, many of which did not make significant profits, particularly during the pandemic. Informality remained high in Mozambique: about 80% of the Mozambican labor force works in the informal sector, which is estimated to account for 31% of GDP and was outside the scope of these measures. The Program Document estimated that at least 5,000 firms would benefit from the income tax relief measure. With an average firm size of 4 workers per firm, this measure was expected to benefit at most 20,000 workers out of a labor force of more than 14 million. The Bank provided technical assistance through the Financial Stability and Inclusion Project (P166107). Overall, given the unclear results chain for measure (i) and the likely minor contribution of measure (ii) to the achievement of the PDO this PA is rated **moderately unsatisfactory**.

PDO 2: Support reforms that will aid the recovery

Prior Action 7: Only 33 percent of Mozambican adults had a bank account in 2019, and of these only 19 percent were women. The introduction of simplified Bank account requirements for small customers was intended to boost financial inclusion by 5 percent point. The prior action only required submission of the law to the Council of Ministers, making the PA the first step towards greater financial inclusion. Project documentation indicated an assumption that increased financial inclusion would boost the economic recovery. However, the link between the COVID recovery and financial inclusion is weak and weakened further by the time it would take for financial inclusion to rise because of this PA. Implementation of the bank account law was supported by the Financial Inclusion and Stability Project (P166107). The PA is likely to make no discernible contribution to the achievement of the PDO. Consequently, this PA is rated **unsatisfactory**.

Prior Action 8: According to the 2018 Enterprise Survey, close to 90 percent of loans in Mozambique require collateral and loan applications of SMEs are disproportionately rejected for lack of collateral. This particularly disadvantages women since they tend to own less real estate property than men. Developing a collateral framework for movable assets was a step towards addressing a financing constraint and was intended to support the private sector in the pandemic recovery phase. Support for the preparation of the legal framework, regulations, and technical specifications for the collateral registry was provided under an IFC Advisory Services project financed by the Swiss State Secretariat for Economic Affairs. Implementation of the registry was financed under the Financial Inclusion and Stability Project (P166107) as part of its support for the use of mobile payments to deliver social welfare payments. However, no evidence is presented to support the view that the absence of a collateral registry was a major constraint to firm access to finance in Mozambique. Without establishing this link, the PA is likely to have a negligible effect on the economic recovery. The PA is rated **unsatisfactory**.

PDO3: Support reforms that enhance fiscal sustainability

Prior Action 5 and 6:

Mozambique was already in debt distress before the beginning of the pandemic. The 2019 IMF Article IV Consultations recommended further improving debt transparency and SOE oversight, as did the 2021 SCD Update. Despite past government commitments, annual debt reports were not published regularly and were limited to central government direct and guaranteed debt. As SOEs were at the heart of the 2016 debt crisis, PA 5 focused on SOE debt reporting and the financial position of the national LNG company. Improving public investment management, including better appraisal and selection and increased transparency, also advised by the 2016 SCD, would help ensure that debt-financed projects are profitable, generating the necessary returns to repay debt, thus enhancing fiscal sustainability. These PAs built on reforms already underway and supported by the Economic Management for Inclusive Growth technical assistance program (P168754). The World Bank is also providing appropriate follow-up through a new IPF; the Managing Public Resources for Service Delivery Project (P173178). The impact of two recent cyclones underlined the importance of building more resilient infrastructure. This in turn can reduce the resources required to repair or replace infrastructure, thereby reducing the contraction of new debt (PDO III). Both PAs were being supported by an ongoing technical assistance program of the World Bank, co-funded by the UK.

The impact of the publication of a credit risk assessment framework for SOEs on the PDO is unclear. The program document states an expectation that “with increased access to information about SOE debts and the establishment of credit risk assessment framework, it is expected that the Ministry of Finance will have credit risk ratings for ten of the largest SOEs by the end of 2021.” However, given the fact that the publication of debt reports was discontinued by the GoM in 2017, this expected outcome seems far from guaranteed.

Overall, while the results chain linking PA 5 to the achievement of the PDO is credible it is unlikely to make a significant contribution to its achievement and is therefore rated **Moderately Unsatisfactory**. Both components of PA 6 are relevant to supporting efficient and effective use of funds borrowed to finance public investment. There is an explicit and convincing results chain linking PA 6 to the achievement of the PDO, it is therefore rated **Satisfactory**.

Rating

Moderately Satisfactory

4. Relevance of Results Indicators

Rationale

Most indicators only partially measured progress to objectives because of the prior actions and in a number of cases were no more than tangentially related to the achievements of the PDOs. The weak relevance of several RIs resulted in a general downgrading of ratings for efficacy.

Results indicators by Objective and PAs; baseline and target values; status and achievement

Results Indicators	Associated PAs	RI relevance	Baseline	Target	Actual	Actual vs. targeted change	RI achievement rating
PDO 1: Mitigating the impact on lives and livelihoods by supporting the immediate COVID-19 response							
RI 1: Number of laboratories with COVID-19 testing capacities established.	PA 1	S	0 (2020)	5 (December 2021)	19 (December 2021)	380%	Substantial
RI 2: Average number of household disconnections from piped water services.	PA 2	MU	12,059 (Jan.-March 2020)	less than 1,000 (April-September 2020)	1,121 (April-September 2020)	98.9%	Substantial
RI 3a: Number of social transfer beneficiaries reached through electronic payment means.	PA 3	MU	1,000 (2019)	150,000 (December 2021)	120,506 (April 2022)	80.8%	Modest
RI 3b: New mobile transaction accounts opened by women due to social transfer scale up	PA 3	MS	0 (2019)	90,000 (December 2021)	75,715 (April 2022)	84.1%	
RI 4: Number of firms benefiting from tax relief measures.	PA 4	S	0 (2019)	5,000 (December 2021)	1,300	26%	Negligible
PDO 2: supporting reforms that will aid the recovery							
RI 7: Adults with a deposit account in a formal financial institution (%).	PA 7	U	35% (2019)	40% (December 2021)	31.1% (December 2021)	-78%	Negligible
RI 8: Number of new registrations of security interests in the collateral registry.	PA 8	MU	0 (2019)	200 (December 2021)	5,034 (December 2021)	2500%	Substantial
PDO 3: support reforms that enhance fiscal sustainability							

RI 5: Number of SOEs with a credit risk rating	PA 5	S	0 (2019)	10 (December 2021)	12 (December 2021)	120%	Substantial
RI 6: Share of new projects in the budget selected from the pre-appraised project pipeline.	PA 6	S	0 (2019)	50% (December 2021)	100% (2022 Budget)	200%	High

PDO1: Mitigating the impact on lives and livelihoods by supporting the immediate COVID-19 response

RI 1(The number of laboratories with Covid-19 testing capacities established): This results indicator adequately measured the impact of the first reform under PA 1 with a clear and credible results chain. **RI 1: Satisfactory**

RI 2 (Average number of household disconnections from piped water services): This indicator failed to capture the substantial number of disconnections following the five months grace period for nonpayment of water fees. Limiting the measurement period to five months undermined the indicator's ability to capture the extent to which households were protected from disconnection. **RI 2: Moderately Unsatisfactory**

RI 3a (Number of social transfer beneficiaries reached through electronic payment means): This indicator measured only a small subset of the beneficiaries of social transfers since most beneficiaries were outside the digital payment net. Consequently, as acknowledged in the ICR, a better indicator could have been the total number of beneficiaries receiving payment, regardless of method. **RI 3a: Moderately Unsatisfactory**

RI 3b (New mobile transaction accounts opened by women due to social transfer scale up): While this indicator measured the change in women's access to finance, the lack of an indicator capturing new accounts for men, leaves uncertainty about the total financial inclusion gains achieved. **RI 3b: Moderately Satisfactory**

RI 4 (Number of firms benefiting from tax relief measures): RI 4 fully measured the impact of reform (ii), the deferral of the small firms' income and corporate tax payments. **RI 4: Satisfactory**

PDO 3: support reforms that enhance fiscal sustainability

RI 5 (Number of SOEs with a credit risk rating): RI 5 measured the outcome of (iii) the publication of a credit risk assessment framework for SOEs. As acknowledged in the ICR, RI 5 could have been strengthened by specifying the need to publish the ratings, which was expected but was not yet in place in April 2022. **RI 5: Satisfactory**

RI 6 (Share of new projects in the budget selected from the pre-appraised project pipeline): adequately measures the impact of PA 6 (i) toward the objective although a measurement capturing the financial size of the project would be more informative than a share of total projects. **RI 6: Satisfactory**

PDO 2: supporting reforms that will aid the recovery

RI 7 (Adults with a deposit account in a formal financial institution %): RI 7 involved a new law to allow simplified bank accounts. The indicator – the percentage of adults with a bank account – could be affected by many other factors, and so was not tightly linked to the prior action. As acknowledged in the ICR, an indicator on the number of accounts opened because of the new, simplified requirements, would have been more appropriate. **RI 7: Unsatisfactory**

RI 8 (Number of new registrations of security interests in the collateral registry): While RI 8 measures the number of new registrations, it is uncertain how many of the new registrants were able to successfully access finance or how much finance was accessed using registered collateral. **RI 8: Moderately unsatisfactory.**

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Mitigating the impact on lives and livelihoods by supporting the immediate COVID-19 response
[PAs 1-4, RIs 1-4]

Rationale

One of the five targets was fully achieved. The remaining targets were not achieved. Most targets were rated substantial, but one target was rated negligible therefore the efficacy of Objective 1 is rated **moderately satisfactory.**

RI 1: The targeted number of laboratories with COVID-19 testing capacities established was exceeded by a large margin. However, other aspects of the immediate COVID-19 response, likely impacted by the Operational Preparedness and Response Plan or the targeted approved fast-track clearance procedures for COVID-19-related medical imports (e.g., reduced processing time for COVID-19-related medical imports) were not captured. The RI is rated **substantial.**

RI 2: An average number of household disconnections from piped water services below 1000 was targeted. The target was almost met with an actual achievement of 1,121. Because of this measure the water regulator incurred losses for which compensation was late to arrive. This caused doubts about the government's commitment to compensation which made the regulator reluctant to extend the relief measure. The regulator also lacked the monitoring platform necessary to ensure compliance. A participatory monitory platform to enable more direct communication between consumers and the regulator was planned but never developed. The RI is therefore rated **substantial**.

RI 3a: with an actual achievement of 120,506 the targeted 150,000 social transfer beneficiaries reached through electronic payment means were not met. The more-than-doubling in the number of beneficiaries was very ambitious and exceeded the capacity of the responsible agency which was itself hindered by COVID. A more robust indicator for the social transfer program would have been the total number of beneficiaries actually receiving payment, instead of focusing only on those receiving digital payments. **RI 3b:** targeted the opening of 90,000 new mobile transaction accounts by women due to the social transfer scale-up. With 75,715 new accounts opened the target was not met. The indicator was only indirectly related to social transfers. The impact of the establishment of a fuel price stabilization fund by the GoM on financing the COVID-19 social response was not captured. The RIs are therefore rated **substantial**.

RI 4: The targeted 5000 firms benefitting from tax relief was not met as only 1,300 firms benefitted. The contribution towards the objective of the US$500 million credit line facility to commercial banks was not reflected. Evidence elsewhere in the ICR indicates that the facility was not very effective as only US$3.5 million was disbursed by the time it was closed at the end of 2020 suggesting that foreign exchange liquidity was not a major challenge. Therefore, this RI is rated **negligible**.

Rating

Moderately Satisfactory

OBJECTIVE 2

Objective

Support reforms that enhance fiscal sustainability
[PAs 5-6, RIs 5-6]

Rationale

As the achievement of all RI targets is rated substantial, the efficacy of Objective 2 is rated **satisfactory**.

RI 5: the targeted 10 SOEs with credit risk rating was exceeded by 2. However, RI 5 only measured the direct output of PA 5 reform (iii) the publication of a credit risk assessment framework for SOEs. The impact of other supported reforms related to SOE debt reporting and ENH financial statements towards fiscal sustainability was not reflected. Therefore, RI 5 efficacy is rated **substantial**.

RI 6: aimed for 50% of new projects in the budget to be selected from the pre-appraised project pipeline, in reality this was 100%. Consequently, RI 6 efficacy is rated **high**.

Rating

Satisfactory

OBJECTIVE 3

Objective
Supporting reforms that will aid the recovery
[PAs 7-8, RIs 7-8]

Rationale
As the achievement of more than a third of RI targets is rated negligible, the overall efficacy of this objective is rated **moderately unsatisfactory.**

RI 7: targeted a 5-percentage point rise in the share of adults with a deposit account in a formal financial institution. In fact, a 3.9 percent point decrease took place. PA 7 required only the submission to the Council of Ministers of simplified bank account law, rather than submission to the National Assembly. Consequently, several steps remained, including Parliamentary approval, before its provisions could be implemented. Then a response by private individuals was required to actually open accounts. Overall, this made the outcome susceptible to delay. Therefore RI 7 is rated **negligible**.

RI 8: targeted 200 new registrations of security interests in the collateral registry. More than 5000 new registrations were achieved. It should be noted that while RI 8 measures the number of new registrations, it is uncertain how many of the new registrants were able to successfully access finance. RI 8 is rated **substantial**.

Rating

Moderately Unsatisfactory

Overall Achievement of Objectives (Efficacy)
Rationale

Objective I is rated moderately satisfactory, Objective II is rated satisfactory, and Objective III is rated moderately unsatisfactory. Drawing on all three ratings the overall efficacy is rated as **moderately satisfactory**.

Overall Efficacy Rating
Moderately Satisfactory

6. Outcome

Rationale

Given the urgent nature of the operation, it was generally well designed with a reasonable number of prior actions and a strong focus on the pandemic response. There was however a disconnect between the objective of Pillar II and its PAs. Pillar II's strongest PAs, PA 5 and 6, focused on debt transparency and debt sustainability which, albeit of great importance, especially to Mozambique, is only one aspect of fiscal sustainability. PA 7 and 8 could be argued to contribute to increasing state revenues but that effect would be very indirect indeed. PA 5 to 8's overall contribution to economic recovery in 2020 was likely modest.

Overall, the RIs were quantitative and measurable, and their achievement was substantial. While the RIs were generally clearly defined, the associated data sources and how the RIs were calculated were not. As the evidence behind the RIs is often not appropriately referenced, it is unclear which part of the GoM or other institution supplied the data. This makes it challenging to assess the credibility of the sources. Furthermore, in many cases where the PA consisted of multiple reforms, the connected indicator only partly measured what the collective effort of the reforms was meant to amount to. The ICR further recognized the shortcomings of results indicators 2, 3, 5, and 7.

With both the relevance of the prior actions and the achievement of the objective (efficacy) rated moderately satisfactory, the overall outcome rating is **moderately satisfactory**.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

While the sustainability of the achieved outcomes is supported by several operations, political risk remain for the debt management reforms. Most of the measures under Pillar I (PAs 1, 2, and 4) were only intended to be temporary. However, additional financing was approved for the COVID-19 Strategic Preparedness and Response project (P178068) in December 2021. This financing enabled the import of additional vaccines and other medical supplies and the continued implementation of the COVID-19 Preparedness and Response Plan. The policy measures supported by PAs 3, 5, 6, 7 and 8 are likely to be sustained. A new Social Protection and Economic Resilience project (P173640) will support the maintenance and further expansion of the social protection system (PA 3) and digital payment promotion (PA 7). The outcomes of PA 5 and 6 are likely to be sustained due to the increasing GoM commitment to public financial management reforms since 2019. Additionally, the Managing Public Resources for Service Delivery Project (P173178) was approved in December 2021 and supports improved PFM, including better monitoring of SOEs. A new DPF series, Institutions and Economic Transformation (P176762) will also support continued reforms in the areas of SOE performance, financial inclusion, fiscal rules, climate-smart public investment, and the water sector. Both this and the future DPF are also supported by a continuous trust-funded TA program on transparency, fiscal risk management, and public investment management. The wider reform agenda put in place in the wake of the hidden debt crisis is also supported by the IMF and other donors. However, given the GoM's past track record a risk of policy reversal, especially around debt management persists. This will especially be the case when Mozambique starts to receive substantial LNG receipts as is expected to be the case by the end of the decade. Finally, the collateral registry (PA 8) is proving very popular. Financial inclusion should eventually increase, supported by the new simplified bank account law.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

When the operation was designed there was much uncertainty about what the full impact of COVID would be. While disruptions were expected to last 2-3 months, government-imposed COVID restrictions remained in place for a year and a half. The operation included a good balance between short-term COVID-relief measures and structural reforms. However, the longer-than-anticipated COVID limitations made achieving sufficient progress on the structural reforms more challenging than anticipated. More modest ambitions and a focus on less complex implementation processes would have been justified within the uncertain context of a pandemic. The operation did mostly benefit urban Mozambiquans and formal sector workers. Half of the operations PAs aimed to mitigate the impact on lives and livelihoods. Several of these measures were likely to only or mostly benefit urban populations (which were only 38% of the population in 2021) and formal sector workers. The water measures were likely to benefit only urban and peri-urban households while deferred tax payments would exclusively benefit the formal sector, which is in majority urban.

The PAs were in most cases supported by sound and rigorous analyses and articulated a clear results chain between PAs and PDOs, but there were significant exceptions. The design of the DPO was informed by lessons from the programmatic DPO series terminated after the hidden debt scandal. Pillar I and its PAs were informed by various World Bank studies in 2020. PA 1 was informed by findings on the need for a national public health emergency preparedness and response plan and the criticality of testing capacity from *Coronavirus disease (COVID-19) technical guidance* (WHO, 2020). PA 2 was informed by *Water Supply, Sanitation, and Hygiene (WASH) and COVID-19 and Critical WASH Interventions for Effective COVID-19 Pandemic Response* (World Bank, 2020). They identified investing to strengthen core public health infrastructure, including water supply and sanitation systems as one of the most cost-effective strategies for increasing pandemic preparedness. WASH services are also critical during the recovery phase of a disease outbreak to mitigate secondary impacts on community livelihoods and well-being. The lesson from *Policy Actions to Mitigate the Poverty and Distributional Impacts of the COVID-19 Pandemic* (World Bank, 2020), that temporary moratoria of public utility bills successfully dampen the negative short-term effects on household incomes due to loss of labor in the wake of COVID-19 also informed PA 2. PA 3 was informed, among others, by the lesson that the use of existing structures especially where there are social safety nets in place is the preferred social policy response from *The Economic Policy Response to the COVID-19 Crisis* (World Bank, 2020). Pillar II and its PAs were supported by country-specific analysis from the *Debt Management Performance Assessment report* (2017), *Mind the Rural Investment Gap: Disparities in Access to Basic Infrastructure and Directions for Mozambique's Public Investment Program* (2019), the *National Financial Inclusion Strategy* (NFIS, 2016-2022) Mid-Term Review, and the World Bank Enterprise Survey for Mozambique. Although based on the same analysis the RIs in some cases (e.g., RI4, 5, and 6) only partially captured the underlying results chain. For some PAs, the analytical underpinning was lacking. There was no analysis of the expected impact of the credit line (PA 4i) while the deferred income and corporate tax were based on ad-hoc analysis from the Ministry of Finance.

The Program Document successfully identified other risks and constraints to achieving the PDOs and identified credible mitigation measures. The Program Document identified three main risks and constraints to achieving the PDOs: 1) a further worsening macroeconomic situation due to a more prolonged and wider spread of COVID-19, 2) fiduciary risks, and 3) low institutional capacity. The severity of the impact of COVID on the Mozambican economy is largely outside the scope of influence of the WB.

The fiduciary risks were partly mitigated with continued donor assistance from the World Bank and other partners to strengthen budget execution and controls and the authorities' commitment to audit and report on COVID-19 expenditures, including large contracts, which are monitored jointly with the IMF and other budget support donors. Additionally, given its participation in the Debt Service Suspension Initiative (DSSI), Mozambique has committed to monitor and report on the use of resources dedicated to the COVID-19 response, including those freed up by the initiative. The low institutional capacity risks were mitigated in two ways. First, the Bank was providing technical assistance to strengthen institutional resources in all areas supported by this operation. Second, the DPF was complementary to other projects and technical assistance provided by IDA and development partners, which together constituted a "more holistic support environment than one operation can offer." For instance, PA 5 and 6 built on reforms already underway and supported by the Economic Management for Inclusive Growth technical assistance program (P168754). Yet, this technical assistance fell short of sufficiently raising the capacity of the social protection agency as stated by the ICR. Consequently, the project was not able to fully meet its targets PDO I. Finally, it should be noted that the most pressing constraint on achieving the PDOs was the relatively modest ambition of the PAs in relation to the broadly defined high-level goals. This is especially the case for PDO III "supporting reforms that will aid the recovery", to which the PAs are unlikely to deliver a substantial contribution.

The operation formed an integral part of development partners' collective response to the crisis in Mozambique which was coordinated by a high-level group of heads of missions that discussed strategic COVID-19 response messages with the Prime Minister. Its preparation specifically benefitted from the COVID-19 Health Coordination Group, which was created by health partners to support the Ministry of Health (MISAU) in the formulation, operationalization, and implementation of its Response Plan. The operation further benefitted from the Social Protection Working Group (composed of the United Nations (ILO, WFP, UNICEF), the World Bank, the UK, and Sweden), which has been formed to support the Government in its plan to increase payments to existing recipients of social safety net programs. The partners support targeting through technical assistance, as well as distribution of cash, potentially through UN organizations active in certain cities/areas. The operation has also been coordinated with budget support programs being developed by other development partners in response to the COVID-19 crisis. It has been coordinated with the IMF, which approved emergency support to Mozambique to help bolster foreign exchange reserves and, together with the World Bank's funds, close the fiscal financing gap. Furthermore, the DPO reinforced the IMF's agreement with the government on strict transparency and accountability measures regarding expenditures related to the COVID-19 response. Finally, the operation was also part of a broader effort by the Bank with significant complementarities. This included significant support to the authorities in the prevention, detection, and response to COVID-19, including acquisition and deployment of vaccines—through the Mozambique COVID-19 strategic preparedness and Response Project (P175884).

Rating

Satisfactory

b. Bank Performance – Implementation

Rationale

The ICR offers limited insight into the team's ability to identify new and emerging risks to the achievement of the PDOs throughout the evaluation. Given the emergency nature of the operation, less demanding PAs, with fewer actors, and simplified implementation procedures would have been appropriate. More than doubling the number of cash transfer beneficiaries was overly ambitious and exceeded the capacity of the implementing agency. Deferred tax payments for SMEs proved to have limited impact indicating that the application process was too cumbersome. It is unclear when it became apparent that indicators 3a, 3b, and 4 were unlikely to be met. There is no indication that additional action was taken at that time to address these shortcomings when they became clear. Especially the risks to the success of PA 2 were not mitigated in a timely fashion. When FIPAG sought government commitment to compensation, compensatory financing was arranged to offset the temporary losses. Unfortunately, uncertainty and delays undermined its effectiveness. It should be acknowledged that the project's ability to respond to emerging challenges might have been hindered by the fact that COVID restrictions barred the implementing TTL from Mozambique. In addition, the project's short timeline and emergency nature are another extenuating factor in the project's inability to sufficiently address these constraints before project closure. However, as the ICR notes, given the emergency nature of the operation, less demanding PAs, with fewer actors, and simplified implementation procedures would have been appropriate.

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

Overall Bank Performance is rated moderately satisfactory. The PAs were in most cases supported by sound and rigorous analyses and articulated a clear results chain between PAs and PDOs. The Program Document successfully identified the main risks and constraints to achieving the PDOs and identified credible mitigation measures. However, given the emergency nature of the operation, less demanding measures, fewer actors, and simplified implementation procedures could have been justified, this applies especially to the measures of PA3. The operation formed an integral part of the development partners' collective response to the crisis in Mozambique and was well-coordinated. Planned mitigation measures were implemented and benefitted from continued stakeholder and donor coordination in a variety of general and sector-specific platforms. The ICR offers limited insight into the team's ability to identify new and emerging risks to the achievement of the PDOs throughout the evaluation.

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

While no concrete data are provided, the prior actions under Pillar I are likely to have had positive poverty and social effects, especially in urban areas, which were most affected by COVID-19 social distancing measures. The ICR argues that prior actions 1 and 2 probably saved lives by helping contain a widespread contagion. Prior action 3 could have had a positive impact on poverty reduction by temporarily increasing the income of almost 1 million households. While likely outcomes, the ICR does not offer any evidence or data to support these statements. It further argues that "the deferral of corporate income tax payments under the fourth measure is expected to have had a positive impact on jobs as it provided cash flow relief to firms representing about 20 percent of formal sector employment." The effect of this measure was likely positive but small as only 1300 firms chose to make use of the deferral. The impact on poverty was even smaller as most of the poor work in the informal sector as also stated in the Program Document. PA 8's poverty-reducing impact is likely to be small as the vast majority of the population works in the informal sector, but it is expected to have positive indirect effects through SME growth linkages.

b. Environmental

Most of the reforms are not expected to have significant positive or negative effects on the environment, forests, and other natural resources. The disposal of imported equipment and materials related to the pandemic response will follow the World Health Organization's (WHO) safe handling and disposal guidelines. The creation of a fuel price stabilization fund increased the cost of petrol and diesel at the pump and therefore could lead to a small reduction in demand for these products, thus lowering carbon emissions. The improved investment management system includes a stronger environmental impact assessment of projects.

c. Gender

Several prior actions benefited women disproportionately. At project initiation, 70 percent of social transfer beneficiaries were women. The program targeted vulnerable households, which are often woman-led, and it prioritized payment directly to women in the household. Because payments are being made for the first time by digital means, this should also help to close the financial inclusion gender gap by enrolling more women than men in mobile money accounts. The moveable collateral registry reform is also expected to have positive gender outcomes. The 2018 enterprise survey shows that women-owned firms are 10 percent more likely than men's to be asked to provide collateral when seeking credit while women are 10 percent less likely than men to own immovable assets.

d. Other

No other impacts were presented in the ICR.

10. Quality of ICR

Rationale

The ICR presents sufficient evidence to support the reported achievements. However, the evidence supporting results is not consistently referenced appropriately, leaving it unclear which part of the GoM or other institution supplied the data, thus making it challenging to assess the credibility of the sources. The results chains linking evidence to interventions and outcomes are clear and coherent. However, the uncertainty around the baseline, target, and final achievement of PA 7 on the share of adults with a deposit account in a formal financial institution could indicate that the evidence has not been sufficiently interrogated in a balanced manner. At times the ICR makes statements without presenting convincing evidence. For example, the ICR postulates, regarding the low take-up of the tax relief measures, that "it does appear that many eligible firms did not bother to apply, probably because the temporary relief did not justify the extra paperwork involved." Staff indicated that this became apparent from surveys conducted by the Ministry of Finance, this should be clarified in the ICR.

The ICR has a strong outcome orientation and candidly identifies how better results could have been achieved and what should be done differently in the future to improve impact. The ICR team also derived valuable lessons from the projects which are well-supported by the evidence and findings of the ICR. However, their operational relevance suffers from the fact that they are overgeneralized leading to axiomatic lessons. Especially the first and fourth lessons could already be considered common knowledge. Lesson 3 is similarly overgeneralized but is valuable when less extended beyond its evidence base.

The ICR is consistent with the ICR guidelines, yet more data could have been included, including by attaching data sets or evidence in the annex of the supporting documents. The ICR is concise and not overly descriptive, nor does it contain information unnecessary for self-evaluation.

a. Rating

Modest

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	While noting pandemic and time-frame limitations, there was insufficient evidence that emerging coordination risks (RI2) and implementation challenges (RIs 3a, 3b, and 4) had been identified and addressed in a timely fashion.
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Modest	

12. Lessons

1. Better targeting is needed to ensure emergency relief measures benefit the most vulnerable. The PAs of Pillar I were intended to mitigate the impact on lives and livelihoods of the pandemic from which the poor are the ones most likely to suffer. While PA3 specifically targeted the poorest and most vulnerable Mozambicans, PA4 did not. It targeted very small firms of on average 4 workers. Even if the target of supporting 5000 firms was achieved that would have amounted to supporting only 20.000 livelihoods without reaching the 80% of Mozambique's labor force, and most of the poor, who work in the informal sector. Similarly, less than half of the poorest Mozambicans benefitted from the pricing relief on piped water.

2. DPFs can be a valuable part of responding to an emergency, but follow-up and complementary support is essential. Often, crisis response DPFs are standalone operations given the emergency nature of the support. This means that significant reforms may not be supported over the longer term, and implementation could falter. For example, the pre-appraisal of investment projects is only a first step in a long-term process of improving public investment management. In this case, the World Bank is providing appropriate follow-up through a new IPF as well as a next DPF.

3. **It is critical to have available up to date core diagnostics to inform the design of operations put together in the context of a crisis**. When time is of the essence, it is often not possible to undertake the necessary analysis to inform the design of prior actions. It is therefore critical to ensure that up to date core diagnostics – e.g., on PFM, PIM, debt management – are available to inform priority setting and design.

13. Project Performance Assessment Report (PPAR) Recommended?

No